

Tax Credits and Other Incentives



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This research brief presents Pennsylvania tax credit and other incentives for fiscal years (FY) 2017-18 through FY 2022-23. The brief separates incentives into four categories: tax credits, state spending or grants, job training programs and state loan programs. The amount reported for each incentive is an estimate of the dollars claimed or awarded each fiscal year. Fiscal year 2022-23 amounts are budgeted, authorized or projected and may differ from final amounts expended or awarded for the year.

The estimates represent a mix of conventions and data sources. Most tax credit data were provided by the Department of Revenue and reflect the utilization of tax credits (i.e., application against tax liability). Data on state spending, grants and loans are from the Department of Community and Economic Development (DCED). Figures for certain tax credits and spending programs that were not available from either agency are from the Executive Budget or are estimates by the IFO. For recent years, estimates from these sources may simply reflect total credits awarded or the program cap.

Tax Credits

In FY 2021-22, **\$679.4 million** of incentives were used or awarded through tax credit programs in the Commonwealth, an increase of \$88.6 million over the prior year. For FY 2022-23, \$959.1 million is projected for tax credit programs. (See table on page 4.) Program highlights include:

- Taxpayers claimed \$209.7 million in **Educational Improvement Tax Credits (EITC)** and \$54 million in **Educational Opportunity Scholarship Tax Credits (OSTC)** in FY 2021-22. Act 55 of 2022 increased the program caps from \$280 million to \$340 million for the EITC program and from \$55 million to \$65 million for the OSTC program. The amount for FY 2022-23 reflects the higher caps.
- Utilization of the **Keystone Opportunity Zone Program** increased by \$24.2 million (28%) from FY 2020-21 to FY 2021-22. The program was designed to encourage investment, economic growth, and employment in designated areas of the Commonwealth. For FY 2022-23, the program estimate is \$114 million.
- Taxpayers claimed \$66.9 million and \$8 million for the **Film Production Tax Credit** and the **Entertainment Economic Enhancement Program**, respectively. Act 53 of 2022 increased the Film Tax Credit cap from \$70 million to \$100 million and the Entertainment Economic Enhancement Program from \$8 million to \$24 million. The amounts for FY 2022-23 reflect the program caps.
- Act 53 of 2022 created the **Airport Land Development Zone Program**. The program was modeled after the Keystone Special Development Zone Program and offers participating businesses an annual tax credit of \$2,100 over ten years for each new job created.
- As part of the tax credit reviews required by Act 48 of 2017, the IFO is reviewing the Manufacturing, Pennsylvania Resource Manufacturing, Rural Jobs and Investment, and Waterfront Development Tax Credits. Reports will be posted to the IFO website in January 2023.

State Spending and Grants

In FY 2021-22, **\$404.4 million** was spent or allocated for economic development projects, an increase of \$38.8 million from the prior year. Over \$420 million is budgeted for economic development projects and grants in FY 2022-23 (See table on page 5.) Notable programs include:

- Distributions from the **Pennsylvania Race Horse Development Fund** (\$205.9 million) increased by \$28.6 million (16%) from FY 2020-21 to FY 2021-22. This fund supports the Pennsylvania horse racing industry through purse prizes, racehorse award programs and horsemen's organizations. Final distributions are based on racing activity and revenues and are projected to total \$203.5 million in the current fiscal year.
- **Redevelopment Assistance Capital Program** payments (\$99.9 million) decreased by \$1.1 million (-1%) from the prior fiscal year. The Office of the Budget awards grants for the acquisition and construction of local economic, cultural, civic, recreational and historical improvement projects. In calendar year 2021, 490 projects were awarded over \$796 million in future commitments. In fall 2022, the Office of the Budget announced another 533 awards totaling \$916.2 million in future investments. The IFO projects \$100 million in payments for FY 2022-23; however, actual payments will be based on reimbursement requests and cash availability.
- Two programs administered by the Ben Franklin Technology Development Authority (BFTDA) have budgeted increases for FY 2022-23. The **BFTDA Challenge Grants** will receive \$16.4 million in funding, a \$1.9 million (13%) increase. **BFTDA Venture Investment Program** support increases by \$9.5 million (+146%). Both programs support technology-based companies and entrepreneurs in Pennsylvania.
- The Commonwealth Finance Authority (CFA) administers the **Business in Our Sites** program, which awards grants and loans for non-residential or recreational site development projects. In FY 2021-22, no awards were made (-\$16.5 million from FY 2020-21). Additionally, no awards were made for the **Pennsylvania Industrial Development Authority's (PIDA) Industrial Parks** program (\$4.7 million in FY 2020-21). The programs have a combined budget of \$24.4 million in FY 2022-23.
- Spending related to the state's **tourism marketing campaign** increased by \$6.6 million to \$9.2 million in FY 2021-22. Funding for the program declined by over 50% in FY 2020-21 due to the COVID-19 pandemic. There is \$7.1 million available in the budget for the 2023 marketing campaign.
- A new economic incentive program was included in the state's fiscal code for FY 2022-23 – the **Sports Tourism and Marketing Grant Program**. The program is funded by tax revenues attributable to sports betting and will fund between \$2.5 to \$5.0 million in grants to attract professional and amateur sporting events to the Commonwealth. Currently, no grants have been awarded.

Job Training Programs

In FY 2021-22, the Commonwealth spent **\$43.8 million** on programs dedicated to job training and workforce development, an increase of \$6.3 million from FY 2020-21. An additional \$42.2 million has been approved for FY 2022-23.

- The Department of Labor and Industry has been appropriated \$11.3 million for job training programs for FY 2022-23, a \$0.7 million (7%) increase from prior years. These funds primarily support the **Apprenticeship and Training Office** and **Industry Partnerships** program, which facilitate on-the-job training and industry cohorts sharing best practices.
- Spending on **Partnerships for Regional Economic Performance** increased by \$3.5 million (52%) in FY 2021-22 to \$10.2 million. This program supports regional economic development projects through partnerships with Local Development Districts, Small Business Development Centers and other entities, assisting businesses through workforce, market and real-estate development efforts. The budget for FY 2022-23 is \$10.9 million.
- **Workforce and Economic Development Network (WedNet)** provides worker training programs to in-state and relocating businesses. Expenditures increased by \$2.8 million (34%) to \$11.0 million in FY 2021-22. For FY 2022-23, state support is budgeted at \$8.0 million.

State Loan Programs

In FY 2021-22, the Commonwealth approved **\$31.2 million** in loans for economic development, a decrease of \$14.4 million (-32%) from the prior year. The state's loan program budget is \$68.1 million for FY 2022-23.

- Loans issued through the **PIDA Loan Program** were \$21.0 million in FY 2021-22, a \$5.1 million (-20%) decrease from the prior year. These loans are budgeted for \$35.0 million in FY 2022-23.
- **Machinery and Equipment Loans** decreased by \$9.8 million (-77%) in FY 2021-22 to \$3 million and is budgeted at \$11.8 million for FY 2022-23.
- **Small Business First Loans** (\$6.5 million) increased \$0.8 million from the prior year and have a budgeted amount of \$20.0 million for FY 2022-23.
- **Minority Business Loans** decreased by \$0.3 million from FY 2020-21 with \$1.3 million available in the current fiscal year.

Tax Credits and Other Incentives

	Utilized or Awarded (\$ millions)					Est.
	17-18	18-19	19-20	20-21	21-22	22-23
Tax Credit						
Educational Improvement	\$129.4	\$150.9	\$174.8	\$179.5	\$209.7	\$340.0
Keystone Opportunity Zone (KOZ)	92.1	95.1	84.3	85.8	110.0	114.0
Neighborhood Improvement Zone (NIZ)	45.6	40.5	61.1	46.6	69.3	71.2
Film Production	60.4	60.9	63.0	65.1	66.9	100.0
Educational Opportunity Scholarship	32.6	32.6	33.6	53.6	54.0	65.0
Research and Development	45.2	43.6	46.9	54.9	46.3	60.0
Neighborhood Assistance Programs	18.0	18.0	18.0	33.6	35.9	36.0
Coal Refuse Energy and Reclamation	8.8	9.8	17.1	10.8	15.2	20.0
Keystone Innovation Zone (KIZ)	16.0	15.3	15.1	15.0	15.0	15.0
Resource Enhancement and Protection	5.4	5.4	5.6	11.2	11.9	13.0
City Revitalization and Improve. Zone (CRIZ)	3.9	7.2	7.8	9.5	8.7	9.7
Entertainment and Economic Enhancement	0.0	5.6	4.0	4.0	8.0	24.0
Tax Credit for New Jobs	10.1	10.1	3.0	3.3	6.0	5.3
Historic Preservation Incentive	3.0	3.0	5.0	5.0	5.0	5.0
Mixed-Use Development	2.0	2.0	3.0	3.0	4.5	4.5
Manufacturing Tax Credit	0.0	0.0	0.0	0.0	4.0	4.0
Computer Data Center Equipment Incentive	0.0	2.0	7.0	5.4	3.5	0.0
Brewers' Tax Credit	0.0	4.9	2.6	2.1	3.0	5.0
Waterfront Development	0.0	0.0	0.2	1.4	1.5	5.0
Video Game Production	0.3	1.0	1.0	1.0	1.0	1.0
Pennsylvania Resource Manufacturing	0.0	0.0	0.0	0.0	0.0	49.6
Pennsylvania Housing	n.a.	n.a.	n.a.	n.a.	0.0	10.0
Rural Jobs and Investment	0.0	0.0	0.0	0.0	0.0	0.0
Airport Land Development Zones	n.a.	n.a.	n.a.	n.a.	n.a.	1.8
Mobile Telecomm. Broadband Investment	<u>4.2</u>	<u>4.6</u>	<u>3.0</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>
Subtotal	477.0	512.5	556.1	590.8	679.4	959.1

Note: Act 132 of 2020 eliminated the Mobile Telecommunications Broadband Investment Tax Credit and established the Underserved Broadband Funding Program, a grant program administered by the CFA.

In July 2015, \$100 million in Innovate in PA Tax Credits were purchased by qualified insurance companies. The credits may be utilized to offset tax year liabilities for 2016 and thereafter, in an amount not to exceed \$20 million annually. The net amount transferred to DCED was \$85.4 million. The net benefit to purchasers is the differential between tax credits sold and monies received (\$14.6 million). The annual impact is the difference between the tax credit claimed in that year and the amount paid for the credit. Due to the technical nature of accounting for the differential, the Innovate in PA Tax Credits are omitted from this table.

The Strategic Development Areas, Keystone Special Development Zone, Organ and Bone Marrow Donation, Community-Based Services, Qualified Manufacturing Innovation & Reinvestment Deduction and Beginning Farmers' tax credits are not included due to a small number of filers or zero filers. The Local Resource Manufacturing tax credit has been enacted, but is not included because it is not yet effective.

The Computer Data Center Equipment Incentive was repealed as of December 31, 2021 and replaced with a tax exemption (tax exemptions are not reflected in the table).

Tax Credits and Other Incentives (Continued)

	Spending (\$ millions)					Est.
	17-18	18-19	19-20	20-21	21-22	22-23
State Spending or Grants						
PA Race Horse Development Fund	\$231.4	\$231.9	\$164.3	\$177.3	\$205.9	\$203.5
Redevel. Assistance Capital Program	234.4	172.8	139.6	101.0	99.9	100.0
Gaming, Economic Devel. & Tourism Fund	74.5	95.5	25.5	25.5	34.8	13.4
BFTDA - Challenge Grants	14.5	14.5	14.5	14.5	14.5	16.4
PA First	9.5	7.4	12.3	11.8	13.1	12.0
Marketing to Attract Tourists (advertising)	1.4	2.2	5.5	2.6	9.2	7.1
Infrastructure and Facilities Improvement	17.2	12.9	10.7	7.7	7.6	10.0
BFTDA - Venture Investment	11.0	6.5	3.0	8.5	6.5	16.0
Office of International Business Development	5.8	6.0	5.6	5.1	5.3	6.0
Life Sciences Greenhouses	3.3	3.0	3.0	3.0	3.0	3.0
Infrastructure and Technology Assistance	2.1	1.8	1.5	1.2	2.9	2.5
Marketing to Attract Business	2.0	2.2	4.9	2.7	1.7	2.0
Business in Our Sites (CFA)	89.3	50.0	10.0	16.5	0.0	19.4
PIDA Industrial Parks	3.8	2.8	4.5	4.7	0.0	5.0
Sports Tourism and Marketing Grants	n.a.	n.a.	n.a.	n.a.	n.a.	5.0
Building PA (CFA)	9.6	0.0	6.3	0.0	0.0	0.0
PA Dairy Investment Program (CFA)	<u>0.0</u>	<u>4.5</u>	<u>5.5</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Subtotal	709.8	614.0	416.7	382.1	404.4	421.3
Jobs Training Programs						
Manufacturing PA	12.0	12.0	12.0	12.0	12.0	12.0
WedNet	6.7	7.9	6.5	8.2	11.0	8.0
Labor and Industry	2.3	12.3	12.6	10.6	10.6	11.3
Partnerships for Regional Economic Perf.	<u>9.1</u>	<u>8.0</u>	<u>13.0</u>	<u>6.7</u>	<u>10.2</u>	<u>10.9</u>
Subtotal	30.1	40.2	44.1	37.5	43.8	42.2
State Loan Programs						
PIDA Loan Program	76.9	42.1	24.4	26.1	21.0	35.0
Small Business First Loans	5.9	8.1	68.1	5.7	6.5	20.0
Machinery and Equipment Loans	3.3	7.6	4.7	12.8	3.0	11.8
Minority Business	<u>1.1</u>	<u>1.3</u>	<u>1.4</u>	<u>1.0</u>	<u>0.7</u>	<u>1.3</u>
Subtotal	87.2	59.1	98.6	45.6	31.2	68.1

Note: PA Race Horse Development Trust Fund disbursements exclude transfers to Agriculture and Farm Products Show Fund.

Source: PA Department of Revenue, PA Department of Community and Economic Development, Commonwealth Executive Budget FY 2022-23, Comprehensive Annual Financial Reports and state accounting system.

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